

AR48

Cominco Ltd.



1977

72nd ANNUAL REPORT

General Information

Cominco is a Canadian company, incorporated January 9, 1906, with international operations whose principal business is zinc, lead and chemical fertilizers. Its involvement is fully integrated and ranges from mineral exploration through mining, smelting, refining and by-product production to international marketing. It also embraces related services including trade, wharfage and power. With head office in Vancouver, it is involved, directly or through subsidiary or associated companies, in activities in British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Quebec and the Northwest Territories in Canada and in the United States, Greenland, Europe, Australia, India and Japan.

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TRANSFER AGENTS AND REGISTRARS

THE ROYAL TRUST COMPANY

555 Burrard Street, Vancouver, B.C. V6B 3R7
 600 - 7th Avenue S.W., Calgary, Alberta T2P 0Y6
 *287 Broadway Avenue, Winnipeg, Manitoba R3C 2M2
 Toronto Dominion Centre, Toronto, Ontario M5W 1P9
 630 Dorchester Blvd. W., Montreal, Quebec H3B 1S6
 **One King Street, Saint John, N.B. E2L 1G1

BANK OF MONTREAL TRUST COMPANY

**2 Wall Street, New York, N.Y. 10005

STOCK EXCHANGES

CANADA	U.S.A.
Vancouver, Montreal, Toronto	** American

- * Preferred Shares Only
- ** Common Shares Only

ANNUAL MEETING — 1978

Thursday, April 20, 1978
 at 11:00 a.m.
 Hotel Vancouver
 Vancouver, B.C.

For Canadian capital gain tax purposes the valuation day value of Cominco Ltd. shares on December 22, 1971 as established by the Department of National Revenue was \$22.88.

In this report:
 Tonnage figures are in short tons unless otherwise noted.
 Dollars are Canadian unless otherwise noted.

Highlights — 5 Year

(all dollar amounts in millions except per share figures)

OPERATIONS	1977	1976	1975	1974	1973
Sales of products and services	\$759.2	\$675.3	\$664.6	\$669.1	\$514.0
Net earnings	62.2	47.7	73.6	86.3	42.8
— per common share	3.43	2.66	4.34	5.08	2.52
Funds from operations	135.6	108.6	146.5	160.6	97.5
— per common share	7.74	6.25	8.63	9.56	5.75
Dividends on common shares	39.1	34.0	50.9	50.9	21.2
— per common share	2.30	2.00	3.00	3.00	1.25
Capital expenditures	80.8	139.8	121.8	59.1	58.0
FINANCIAL POSITION					
Assets:					
Working capital	\$158.2	\$202.2	\$199.1	\$160.4	\$156.1
Fixed assets (net)	556.9	532.4	442.2	370.3	368.8
Investments and other assets	154.4	107.4	94.0	86.3	54.5
	<u>\$869.5</u>	<u>\$842.0</u>	<u>\$735.3</u>	<u>\$617.0</u>	<u>\$579.4</u>
Represented by:					
Long-term debt	\$249.5	\$253.5	\$212.2	\$138.1	\$146.5
Income taxes not currently payable	84.1	73.1	68.7	51.9	46.6
Minority interests	51.3	50.1	49.2	44.8	39.4
Shareholders' equity	484.6	465.3	405.2	382.2	346.9
	<u>\$869.5</u>	<u>\$842.0</u>	<u>\$735.3</u>	<u>\$617.0</u>	<u>\$579.4</u>
Return on assets employed	8.9%	9.0%	14.5%	18.9%	9.8%
Return on common shareholders' equity	12.1%	10.8%	18.7%	23.7%	12.7%



72nd Annual Report of the Directors

To the Shareholders:

In 1977 net earnings amounted to \$62.2 million from sales of \$759.2 million compared to 1976 earnings of \$47.7 million from sales of \$675.3 million.

The oversupply of zinc caused world stocks to rise to record levels at mid year. As a result, in July your Company curtailed production to hold our year's output to the 1976 level. Zinc prices in all markets declined.

The outlook for lead was more encouraging. Demand was strong throughout the year, with improved prices and below normal inventory levels. The supply of lead concentrate has been declining for a number of years, causing a worldwide shortage in 1977.

Gold prices strengthened during the year, resulting in a favourable impact on earnings. Silver and tin prices were strong but bismuth and cadmium were weak. Demand for fertilizers, including potash, remained steady. Productivity at our Vade potash mine was improved. However, unfortunately, for another year we have to record our disappointment that your Company obtained no relief from confiscatory resource taxes in the Province of Saskatchewan. Earnings before taxes of \$3.3 million were converted to a loss of \$3.4 million because of the imposition of taxes amounting to \$6.7 million.

At the Annual Meeting in April, 1977, a major program of modernization at the Kimberley and Trail plants was announced. Work on this \$425 million project, to be implemented over the next eight years, commenced during the year. When the program is completed the plant capacity will be expanded by twenty percent and we will have the most modern zinc and lead operating facility in North America.

Prevailing economic conditions do not warrant an immediate development of the Valley Copper deposit in the Highland Valley of central British Columbia. However, with a view to the long term importance of copper as an industrial product, your Company increased to 39 percent its investment in Bethlehem Copper Corporation, a Canadian producer of copper concentrates and minority owner with Valley Copper

of the Valley Copper ore deposit. While no mutually acceptable basis for development of this deposit has been evolved by Valley and Bethlehem, Cominco considers its investment in Bethlehem Copper Corporation may contribute to the establishment of such a basis.

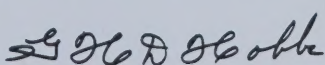
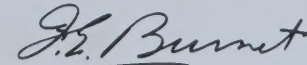
At the Carseland, Alberta, ammonia and urea plant commercial production did not commence until after the spring fertilizer season had ended and consequently the plant operated at a loss. The plant is now performing at design capacity. The expansion of the Con Mine in the Northwest Territories was completed and has added significantly to the Company's gold production capability. At the Rubiales Mine in Spain startup difficulties in the surface plant were overcome and the mine is now in operation. The process of ground control is proceeding in an orderly manner.

Capital expenditures on lands, buildings and equipment in 1977 totalled \$59.8 million. In addition, exploration and mineral development programs for the year totalled \$31.3 million.

At the Annual Meeting H. M. Pickard retired from the Board of Directors and was succeeded by R. W. Campbell. Mr. Pickard's helpful counsel will be greatly missed.

J. H. Salter retired at the end of November after 42 years of distinguished service and was succeeded by M. N. Anderson as Executive Vice-President and Chief Operating Officer. M. H. Mason retired after 36 years of valued service in the Company's legal group and was succeeded by P. A. Manson as General Counsel. Other senior appointments were J. F. Allison, Vice-President, Employee Relations; P. Hansen, Group Vice-President at Calgary; and H. M. Lewis, Vice-President, Sales. The latter appointment coincided with the move to Toronto of H. T. Fargey, Executive Vice-President, Toronto.

The Directors express their appreciation to all employees of the Company and its associates for their contribution to Cominco's growth in a difficult year.

Vancouver, British Columbia
March 10, 1978.

G. H. D. Hobbs,
President

F. E. Burnet,
Chairman and Chief
Executive Officer

Ore Reserves

MEASURED AND INDICATED

		1977 (thousands)		1976 (thousands)	
Zinc-Lead		Ore (tons)	Mineral Content (tons)	Ore (tons)	Mineral Content (tons)
B.C.	Sullivan/H.B.	55,000	6,100	57,000	6,200
N.W.T.	Pine Point	37,000	2,800	36,000	2,700
U.S.A.	Magmont	8,200	710	9,400	900
GREENLAND	Black Angel	3,900	670	3,900	740
SPAIN	Rubiales	13,500	1,140	13,500	1,290
Gold			(ozs.)		(ozs.)
N.W.T.	Con/Rycon	1,630	930	1,470	870
Mercury			(flasks)		(flasks)
B.C.	Pinchi Lake	1,200	98	1,200	98
Tin			(tons)		(tons)
AUSTRALIA	Aberfoyle Group	4,200	28	4,000	28
Phosphate Rock (P₂O₅)			(tons)		(tons)
U.S.A.	Warm Springs/ Douglas	19,000	5,900	19,000	5,900
Coal (Clean)			(tons)		(tons)
B.C.	Fording		65,000		63,000
ALTA./SASK.	Fording		1,800,000		1,300,000
Potash (K₂O)			(tons)		(tons)
SASK.	Vade	110,000	29,000	112,000	30,000
	Other	214,000		216,000	

POTENTIAL

Zinc-Lead			(tons)		(tons)
N.W.T.	Polaris	25,000	4,700	25,000	4,700
TASMANIA	Que River	6,800	800	6,800	880
SPAIN	La Troya	5,500	650	5,500	650
Copper			(tons)		(tons)
B.C.	Valley Copper	800,000	3,800	800,000	3,800

Producing Mines

			1977		1976		
Location	Mine	Product	Ore (tons) Grade	Concentrate (tons)	Ore (tons) Grade	Concentrate (tons)	
Zinc-Lead B.C.	Sullivan		2,419,000		2,342,000		
		Zinc	3.8%	166,000	3.9%	166,000	
	H.B.	Lead	3.8%	118,000	4.0%	121,000	
			394,000		412,000		
		Zinc	3.9%	24,900	3.8%	26,600	
		Lead	0.7%	5,300	0.7%	5,600	
	N.W.T.	Pine Point		3,443,000		3,773,000	
			Zinc	5.3%	290,000	5.3%	323,000
	U.S.A.	Magmont	Lead	2.1%	85,200	1.7%	72,300
				1,094,000		1,070,000	
Lead			7.0%	49,300*	7.5%	50,800*	
Zinc			1.4%	9,800*	1.2%	8,800*	
GREENLAND	Black Angel	Copper	0.3%	7,100*	0.4%	5,400*	
			610,000		663,000		
		Zinc	15.1%	146,000	14.7%	157,000	
		Lead	6.1%	43,500	5.2%	41,700	
Gold N.W.T.	Con/Rycon		157,000		151,000		
		Gold	0.62 ozs.		0.62 ozs.		
Tin AUSTRALIA	Aberfoyle/ Storeys Creek		45,000		44,000		
		Tin	0.4%	180	0.4%	200	
		Tungsten	0.5%	210	0.6%	280	
	Cleveland		434,000		400,000		
		Tin	0.7%	2,710	0.7%	2,870	
		Copper	0.2%	2,300	0.3%	3,360	
	Ardlethan		592,000		488,000		
		Tin	0.3%	2,490	0.5%	2,660	
Phosphate Rock U.S.A.	Warm Springs (Brock)		162,000		191,000		
		P ₂ O ₅	28.8%		28.5%		
Coal (Clean) B.C.	Fording		3,100,000		1,800,000		
		Coal	—		—		
Potash SASKATCHEWAN	Vade		2,033,000		1,709,000		
		K ₂ O	25.5%		25.6%		

*Cominco American's 50% share.

Production and Sales Statistics

		1977		1976	
		Sales	Production	Sales	Production
Refined metal					
Zinc	tons	191,000	223,000	224,000	224,000
Lead					
Trail	tons	152,000	150,000	131,000	142,000
Magmont	tons	33,000	33,000	34,000	35,000
		<u>185,000</u>	<u>183,000</u>	<u>165,000</u>	<u>177,000</u>
Silver(1)	ounces	9,284,000	9,396,000	9,362,000	9,430,000
Gold					
Con/Rycon	ounces	93,800	92,900	92,200	90,000
Others	ounces	15,300	15,300	35,600	30,800
		<u>109,100</u>	<u>108,200</u>	<u>127,800</u>	<u>120,800</u>
Concentrates (2)					
Lead					
Sullivan	tons	—	118,000	—	121,000
H.B.	tons	—	5,300	—	5,600
Magmont	tons	—	49,600	7,500	50,800
Pine Point	tons	58,100	85,200	75,100	72,300
Black Angel	tons	48,500	43,500	37,500	41,700
		<u>106,600</u>	<u>301,600</u>	<u>120,100</u>	<u>291,400</u>
Zinc					
Sullivan	tons	—	166,000	—	166,000
H.B.	tons	—	24,900	—	26,600
Magmont	tons	11,400	9,800	8,200	8,800
Pine Point	tons	46,000	290,000	113,000	323,000
Black Angel	tons	152,000	146,000	191,000	157,000
		<u>209,400</u>	<u>636,700</u>	<u>312,200</u>	<u>681,400</u>
Chemicals and Fertilizers					
Canada	tons	975,000	990,000	673,000	698,000
United States	tons	438,000	494,000	461,000	459,000
		<u>1,413,000</u>	<u>1,484,000</u>	<u>1,134,000</u>	<u>1,157,000</u>
Potash	tons	726,000	707,000	664,000	594,000

(1) Includes silver sold in concentrates and intermediate products.

(2) Sales tonnages exclude concentrates processed at Trail.

Marketing

The market for Cominco's refined metals and metal concentrates was mixed during 1977. While demand for refined zinc remained static during the year and prices weakened, refined lead, tin, silver and gold met with active demand and strengthening prices. Zinc concentrate was in surplus at year end, but lead concentrate was in short supply.

Western world consumption of refined zinc in 1977 was 4.6 million tons, only marginally above that of 1976. The lack of growth in zinc consumption can be attributed in general to the continuing economic recession and its unfavourable impact on the steel and construction industries and in particular to the declining use of zinc in automobiles resulting from the trend towards smaller and lighter vehicles. Sluggish demand and abnormally high inventory levels depressed zinc prices to averages below those of the previous year:

		1977	1976
London Metal Exchange			
Equivalent	U.S.\$/lb.	26.7	32.3
United States	U.S.\$/lb.	34.4	37.0
Canada	Can.\$/lb.	35.0	36.8

In December a number of U.S. zinc smelting companies petitioned the International Trade Commission of the United States for protection against alleged excessive imports of refined zinc demanding quotas and higher tariffs. Cominco, together with other suppliers of refined zinc to the United States and with representatives of the U.S. zinc consuming industries, will oppose the petition at public hearings to be held before the International Trade Commission in March, 1978.

Western world consumption of refined lead increased slightly to 4.0 million tons. Producer inventories of lead remained below normal levels primarily as the result of the continuing high requirements of battery manufacturers. Lead prices were significantly above the previous year's averages:

		1977	1976
London Metal Exchange			
Equivalent	U.S.\$/lb.	28.0	20.5
United States	U.S.\$/lb.	30.7	23.1
Canada	Can.\$/lb.	31.4	22.6

Gold prices strengthened markedly during the year largely as the result of currency instability. Silver prices were influenced by the rise in gold prices. Average prices for the two years were:

		1977	1976
London Gold	U.S.\$/oz.	147.72	124.84
Handy & Harman, N.Y. Silver	U.S.\$/oz.	4.62	4.35
Handy & Harman, Toronto Silver	Can.\$/oz.	4.92	4.30

Cominco's sales of its refined metals and metal concentrates were influenced by their respective market conditions. Zinc sales were below the low level of 1976, while sales of refined lead increased significantly. All silver and gold produced was sold at substantially improved prices. Sales of tin, while at higher prices, were somewhat reduced in volume because of decreased Australian production resulting from lower grade ore. Zinc concentrate from both the Pine Point and Black Angel mines was sold in decreased volume and at lower prices than in the previous year. The volume of Pine Point lead concentrate available for sale outside of Canada decreased. Sales of Black Angel lead concentrate improved.

A general improvement was apparent in world fertilizer markets and Cominco's fertilizer and chemical sales surpassed those of 1976. Potash, for which supply and demand were restored to balance in the spring, was sold in newly acquired markets in eastern Canada as well as in expanded markets in the United States and overseas. Demand for urea and phosphate fertilizers was strong throughout the year. Although fertilizer prices recovered internationally from the depressed levels of 1976 and were generally firm, North American ammonia prices after strengthening briefly in the spring weakened somewhat toward the end of the year due to increases in production capacity. At year end Cominco's fertilizer and chemical inventories were at normal levels.

Cominco and five other companies have been charged under the Combines Investigation Act (Canada) with respect to alleged unlawful combination to prevent or lessen unduly competition in fertilizers in western Canada. The matter has been set down for trial in November 1978. The Company has been advised by its counsel that there is a valid defense to the charge.

Exploration

The political conditions and tax structures in many jurisdictions around the world are forcing Cominco and other mining companies to redefine the areas suitable for exploration activity. In certain locations where political and financial risks are particularly high, a downward trend in exploration is already apparent, which if continued will inevitably retard mineral development and create significant economic hardships in the very countries which can least afford not to develop their resources. Cominco's investments in exploration remain concentrated in those areas with the most stable political and financial environments.

Cominco's exploration program in 1977 was successful in identifying additional ore reserves at many of the Company's mines. Reserves more than sufficient to replace the ore mined during the year were located at the Con and Pine Point mines. At the Con Mine the additional reserves identified are in the lower levels of the mine, to which the new Robertson Shaft has provided access. Excellent prospects of extensions to these low level reserves exist and a major program of exploration along the deep gold bearing structures was initiated at year end. At the Black Angel and Rubiales mines ore reserves were maintained.

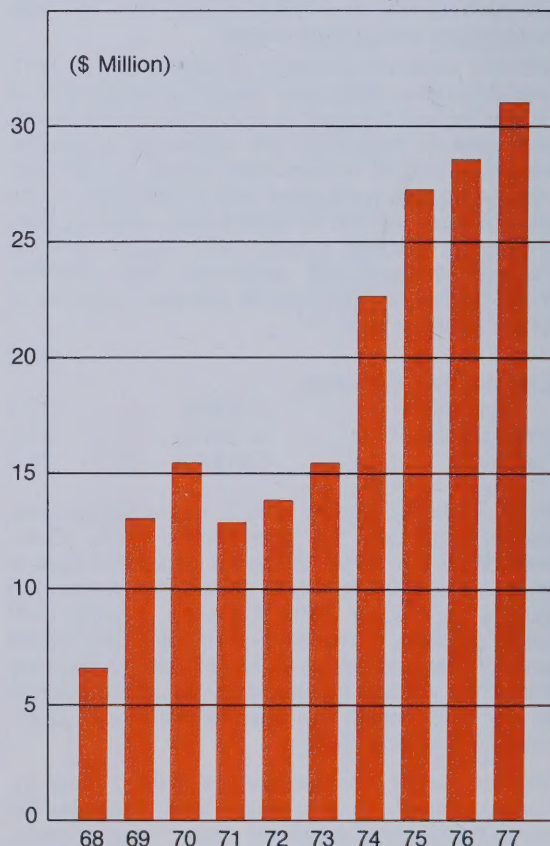
Cominco carried on exploration during the year for a variety of minerals in addition to lead and zinc, including gold, silver, nickel, tin, tungsten, uranium and molybdenum. Total expenditures on world wide mineral exploration programs in 1977 were \$31.3 million. Of this amount 44 percent was spent in Canada and 24 percent in the United States.

In the United States an active exploration program was carried out in several states with special attention to Alaska where diamond drilling intersected some interesting zinc-lead mineralization. The joint venture with Asarco and NL Industries at Burkesville, Kentucky, made good progress in sinking the shaft. The gas and oil exploration program designed to augment the feed stock at the Borger, Texas, ammonia plant was continued with encouraging results.

At the Que River lead-zinc-copper property in Australia and at the Los Verdes copper-molybdenum-tungsten property in Mexico, progress was made in underground exploration programs to establish mining conditions and economic feasibility. At the La Troya zinc-lead deposit in Spain the underground exploration decline was completed.

EXPLORATION AND DEVELOPMENT EXPENDITURES

Cominco Ltd. and Group Companies



B.C. Group

Ore production at the Sullivan mine at Kimberley, as shown in the table on page 5, was greater than in 1976. At the H. B. mine at Salmo, available ore is diminishing rapidly and reserves will be exhausted in 1978.

Production of refined zinc at the Trail plant was again less than capacity and, as indicated in the table on page 6, equalled that of 1976. Although zinc output was near capacity for the first half of the year, it was curtailed during the second half in order to exercise inventory control. Production of refined lead was greater than in the previous year. Fertilizer production at Trail and Kimberley was above that of 1976.

A major multi-phased program to expand and modernize the Sullivan mine and the Trail metallurgical plant was announced in April. In the program the most recent technology is being applied to improve productivity, to ensure the continuing competitiveness of the operations in world markets and to establish optimum working conditions. The first phase of the program, for which funds were appropriated in 1977, provides for the further mechanization of mining methods at the Sullivan mine and for construction of a new lead concentrate preparation plant at Trail. A study is under way into whether the modernized Trail plant might produce zinc partly by means of the hydrometallurgical "S.C. Process." The feasibility of this process whereby zinc metal and elemental sulphur are produced directly from zinc concentrate was demonstrated on a pilot plant scale by Cominco and Sherritt Gordon in 1977.

Electric power for the operations at Trail and Kimberley is provided by Cominco's five hydro-electric generating plants on the Kootenay and Pend'Oreille Rivers and its electrical transmission system. These plants are managed under contract by the West Kootenay Power and Light Company. The National Energy Board renewed for five years the license for Cominco Ltd. to export interruptible power surplus to the needs of its operations and of utility companies in British Columbia and Alberta. Extreme drought conditions prevailed in the U.S. Pacific Northwest for most of the year. Power available to Cominco, however, was normal and the Company was able to make significant exports of surplus interruptible power to the United States. Towards the end of the year reservoirs in the drought affected area were filling and the extreme water situation was being alleviated.

Cominco aims constantly at the improvement of working conditions and the protection of the environment at its operations. To these ends construction of plant and equipment for which some \$50 million had been authorized was under way in 1977. A major item covered by the authorization is a waste water treatment plant for effluents discharged by the

Kimberley operation. At Trail the new baghouse for improved lead plant ventilation which was completed late in 1976 performed well during the year.

The imposition of differing environmental standards by dual regulatory agencies is a growing cause for concern. By amendments to the Fisheries Act, effective September 1, 1977, the federal Department of Fisheries and Environment received authority to impose water pollution regulations which are potentially in conflict with those laid down by the British Columbia Pollution Control Branch. These standards must be brought into harmony if they are not to be counterproductive.

Prairie Group

Fertilizer production at the Calgary plant proceeded normally. The ammonia and urea fertilizer complex at Carseland, Alberta, started up during 1977 and by year end was performing at designed rates. Commercial production was not achieved until after the spring fertilizer season had ended and consequently the plant operated at a loss. Potash produced at the Vade mine in Saskatchewan exceeded 700,000 tons.

Fording Coal Limited and CanPac Minerals Limited

Cominco's 40 percent share of the 1977 earnings of Fording Coal Limited was \$4.4 million. Fording's Elkford mine in southeastern British Columbia produced 3.1 million tons in 1977. Coal shipments to Japanese steel producers under Fording's long term contract were curtailed during the year as a result of the continued low level of steel production. New overseas markets for metallurgical coal were pursued.

In order to facilitate the active development of Cominco's coal interests in western Canada management of the Fording operation was established in Calgary. At the end of 1977, Cominco's management contract with Fording was terminated and the Cominco employees concerned were transferred to Fording's employ. At the same time Fording and CanPac Minerals were amalgamated as Fording Coal Limited. All Cominco's coal interests in western Canada are now under Fording's management.

Northern Group

The mile-deep Robertson Shaft and expanded concentrator at the Con gold mine near Yellowknife, Northwest Territories, became operational in 1977. These new facilities will increase the tonnage treated by 50 percent and will improve the efficiency of underground operations.

Production at the Con mine continued to rise and for the year was 93,000 ounces. Exploration in the mine defined reserves in excess of the ore extracted during the year.

Pine Point Mines Limited

Net earnings reported for 1977 were \$9.4 million on sales of \$74.8 million. Production of lead concentrate was 85,000 tons and of zinc concentrate 290,000 tons. Concentrate production was below normal levels due to the sluggish zinc market.

Approximately 7.9 million tons of overburden and waste rock were removed during the year. Good progress was made in fabricating the 30 cubic yard dragline required to handle the additional tonnages expected after 1978 and to reduce stripping costs. This machine is expected to be operational in 1979.

Capital expenditures of \$7.1 million were mainly for progress payments on the dragline. Exploration programs costing \$1.6 million defined ore reserves greater than the year's production.

Arvik Mines Ltd.

Arvik Mines, headquartered in Yellowknife, owns the Polaris zinc-lead deposit on Little Cornwallis Island, Northwest Territories. While the ore deposit has not yet been fully explored, reserves have been defined sufficient to support a medium-sized operation for 20 to 25 years. No work was done at the site during 1977 pending the outcome of discussions with the federal government on development of the mine and construction of the necessary infrastructure. Some progress was made during the year and the discussions will continue.

Employee Relations

The total number of employees of Cominco and its consolidated subsidiaries on December 31, 1977 was 10,898, of whom 8,724 were employed in Canada. For comparison, the number of employees at the end of 1976 totalled 10,696.

Of the 8,724 Canadian employees, approximately 75 percent are organized and are represented by seven different unions. During 1977, ten collective agreements were renegotiated without work stoppages. Five of these were for two years and five were for one year only. All agreements were within Anti-Inflation Board designated limits.

For their achievement of 40 years of service with the Company, Cominco honoured 71 employees at a dinner in Trail in September. The total number of employees with this record still in Company service, is 121. One employee, John McGowan, of Kimberley, was honoured for the achievement of 50 years of service with the Company. He is the eighth Cominco employee to reach this significant milestone.

The Company continued its program of higher education awards to sons and daughters of Cominco employees in Canada who have achieved a high scholastic standard and are proceeding to post-secondary education. In 1977 Cominco presented 65 of these awards.

During the year 181 employees retired and at year end there were approximately 3,400 people receiving retirement income benefits from Company pension plan funds. These benefits amounted to \$10,500,000 for the year.

Employment costs for Cominco and its consolidated subsidiaries are summarized in the following table:

	1977	1976
Wages and salaries	\$192,700,000	\$174,100,000
Other employment costs	<u>27,800,000</u>	<u>24,100,000</u>
Total direct employment cost	<u>\$220,500,000</u>	<u>\$198,200,000</u>
Per employee (average)	\$ 20,200	\$ 18,500

Cominco American Incorporated

Cominco American reported sales of \$179 million. Earnings declined slightly due to increased costs, particularly for natural gas and power. Capital expenditures were \$10.0 million.

The 50 percent owned Magmont lead mine at Bixby, Missouri, contributed substantially to the net earnings of Cominco American, as the rising price of refined lead offset the falling prices of zinc and copper concentrates. Sales were 33,000 tons of refined lead, 11,400 tons of zinc concentrate, and 7,300 tons of copper concentrate.

The phosphate mine in Montana continued to operate at a rate appropriate to the requirements of the Kimberley fertilizer plant of Cominco Ltd. Sales of phosphate rock were 153,000 tons. Costs were controlled and productivity was well maintained.

The Borger ammonia plant in Texas operated with a high degree of efficiency and with a production of 393,000 tons was an important profit contributor to the net earnings of Cominco American. Production at the Homestead ammonium nitrate plant in Nebraska at 180,000 tons was a record, although sales were slightly lower than in the previous year.

Chemical, fertilizer and potash sales in 1977 were 1,568,000 tons, of which 913,000 tons were purchased from Cominco Ltd. Sales of electronic materials and of oil and gas increased.

At Burkesville, Kentucky, the 2,200 foot shaft was finished to a depth of 1,600 feet at year end. Preparations are being made for the commencement of underground drifting and drilling to delineate ore reserves and collect mining data.

The active exploration program in several states indicated a number of mineral occurrences which will be further investigated and identified several significant natural gas deposits.

There was no action during the year in the civil proceedings in which it is alleged Cominco American and a number of other companies violated the United States anti-trust laws in connection with the production and distribution of chemical fertilizers. Liability has been denied by the defendants.

Cominco Europe

Vestgron Mines Limited

The Black Angel mine in Greenland owned by Greenex A/S, a wholly owned subsidiary of Vestgron, produced 146,000 tons of zinc concentrate and 43,500 tons of lead concentrate. The production of concentrates fell below that of 1976 as the result of a six week stoppage caused by labour disputes in mid-year.

Vestgron reported net earnings of \$5.7 million from sales of \$42.8 million. Lower earnings resulted from declining European zinc prices and from costs related to the work stoppage.

Exploración Minera Internacional España S.A. (Exminesa)

In Spain construction work at the Rubiales zinc-lead mine and concentrator was completed by mid-year. Production was delayed, however, due to start-up problems.

At the LaTroja deposit the decline started in 1976 was completed. The underground exploration program has been suspended until an improvement of the zinc market occurs.

Tara Exploration and Development Company Limited

The Navan zinc-lead mine and concentrator began operating in July, 1977, and by year end had started shipping concentrates to European smelters. Production and shipping were disrupted by labour disputes during the second half of the year.

Cominco Australian

Cominco Australian administers the Company's interests in Australia. The four producing tin and tungsten mines of the Aberfoyle group (55% owned) are managed by Abminco N. L. which is also responsible for the preliminary development work at the Que River Project (52% owned) and carries out all the Company's exploration work in Australia. Sales from the producing mines increased significantly to \$A 25.2 million mainly as the result of increased tin prices. Further corporate restructuring is under way to simplify administration and assist financing of future developments.

Overall ore reserves at Aberfoyle's operating mines, Cleveland, Ardlethan, Aberfoyle and Storeys Creek, were maintained and a major exploration and development program aimed at increasing the reserves is under way. In addition, the metallurgical program has been expanded to increase recoveries from current production and to investigate the retreatment of tailings. The program of exploring for and acquiring new ore bodies is continuing.

At the zinc-lead-copper project at Que River in Tasmania underground exploration of the ore indicated previously by surface drilling continued through the year to establish economic feasibility.

West Kootenay Power and Light Company, Limited

The 1977 utility load growth was 9.5 percent from 72,000 residential, commercial and industrial consumers served by West Kootenay Power in south central British Columbia. Capital expenditures amounted to \$6.9 million. While the interim rate increase of 12.6 percent granted in 1976 by the British Columbia Energy Commission helped restore earnings, they are still not at a realistic level. The Commission has deferred making this increase final pending the outcome of a stated case filed by the Commission with the British Columbia Court of Appeal as to the cost of power from Cominco Ltd. to West Kootenay Power and Light.

Other Companies

Western Canada Steel, together with the steel industry throughout the world, experienced a difficult year. A 10 percent drop in prices offset increased sales volume and depressed sales revenue to the level of the previous year. Sales for the year were \$42.2 million. Earnings were adversely affected by a costly failure of the Vancouver electric furnace transformer and by a four month strike in the Hawaiian construction industry.

National Hardware Specialties consolidated the operations formerly at Lindsay, Ontario, with its operations at Dresden, Ontario. A large part of the equipment was rebuilt and obsolete equipment was replaced. The programs of consolidation and renovation reduced tonnage processed to a level lower than that of the previous year. Sales revenue of \$10.0 million was less than in 1976.

Pacific Coast Terminals handled 3.3 million tons of cargo as compared with 3.7 million tons in 1976. The reduction was particularly severe at the New Westminster wharves where cargo handled fell by 45 percent. In view of the fact that business at New Westminster has declined continually over the last few years, the decision was taken to sell the Company's property there and at year end negotiations for sale were under way. The New Westminster cold storage plant has been closed, but shipping operations are continuing until final disposition of the property.

The Canada Metal Company experienced a good year with sales of \$66.4 million, \$12 million higher than in 1976. New facilities were successfully brought on stream in Winnipeg and studies on replacing the smelting furnace in Calgary were completed.

In Japan, Mitsubishi Cominco Smelting continued its lead smelting operations at a high level of efficiency. Production increased and would have been greater if supplies of suitable lead concentrate had been available. Sales volume for the year was 37,300 tons.

At Cominco Binani Zinc in India, the general improvement in operations started in 1976 continued until August 1977, when a labour dispute shut down the plant. Operations were not resumed until December. Sales volume of refined zinc was 9,300 tons.

Financial Review

Revenue

Sales of \$759.2 million were \$83.9 million greater than 1976. The increase in revenue is the combined result of changes in volumes of products sold and realized prices. A summary of principal product sales is as follows:

	Principal Product Sales (millions)	
	1977	1976
Refined zinc and refined lead	\$249.9	\$234.2
Zinc and lead concentrates	70.1	88.4
Fertilizers and chemicals	207.8	164.4
Other processed and manufactured goods	170.5	155.5
Other products and services	60.9	32.8
	<u>\$759.2</u>	<u>\$675.3</u>

The geographic areas where products are sold and the countries from which the products originated are as follows:

Country of Origin	Geographic Areas of Sales (millions)					
	Total	Canada	U.S.A.	U.K.	Europe	Other
Canada	\$549.8	\$225.3	\$219.6	\$52.0	\$14.5	\$38.4
United States	126.9	0.2	125.2	1.1	0.4	—
Greenland	42.9	—	1.5	9.4	32.0	—
Australia	29.6	—	0.2	—	0.6	28.8
Others	10.0	—	—	7.2	2.8	—
Total	<u>\$759.2</u>	<u>\$225.5</u>	<u>\$346.5</u>	<u>\$69.7</u>	<u>\$50.3</u>	<u>\$67.2</u>
Percentages	<u>100%</u>	<u>29.7%</u>	<u>45.6%</u>	<u>9.2%</u>	<u>6.6%</u>	<u>8.9%</u>

The Company conducts an active brokerage business in Europe and, through Cominco (U.K.) Limited is a member of the London Metal Exchange. Activities during the year amounted to \$523.7 million. To avoid distortion of sales to earnings ratios only margins from these transactions are included in sales.

Cost of Products and Services Sold

The cost of products and services sold was \$459.5 million compared with \$411.5 million for 1976. During the year unit production cost increases amounted to \$33.4 million, reflecting increased inflationary pressures. The remainder of the increase over 1976 represents the cost of increased volume of sales in 1977.

Taxes

Taxes include both taxes on earnings and those levied against income from resource properties. Income taxes amounted to \$36.7 million and provincially imposed resource taxes to \$10.0 million. The Company has provided for withholding taxes on dividends from current earnings of foreign subsidiaries to the extent of anticipated dividend payments in the future. Greenex A/S (a subsidiary of Vestgron Mines Limited) was granted exemption from taxes until that company realized earnings approximately equal to its invested

capital. During the last quarter of 1977 accumulated earnings of Greenex A/S equalled invested capital; accordingly, subsequent earnings are taxable.

Foreign Exchange

The Company sells its products in all major world markets. With world currency rates changing on a daily basis, the amount realized from sales can be materially affected. The Company maintains constant surveillance of all currency movements and exposures to minimize risk.

Gains on translation of accounts of foreign subsidiaries into Canadian dollars amounted to \$7.0 million in 1977, compared with \$0.9 million in 1976. These gains resulted primarily from the decline in value of the Canadian dollar in relation to the U.S. dollar. When the assets of foreign subsidiaries are converted into their Canadian dollar equivalent, gains and losses on translation are created. The manner in which foreign currency translations are handled are explained in the Summary of Significant Accounting Policies outlined on Page 16.

Earnings

Net earnings of \$62.2 million (\$3.43 per common share) were up from \$47.7 million (\$2.66 per common share) earned in 1976. Quarterly earnings reported were as follows:

	1977 Quarterly Earnings (millions)					Year Total
	1st	2nd	3rd	4th		
Revenue	\$171.5	\$239.7	\$171.4	\$182.7		\$765.3
Costs and expenses	148.6	199.2	154.9	162.5		665.2
Income and resource taxes	11.8	18.6	6.3	10.0		46.7
Minority interest in net earnings of subsidiary companies	1.9	2.1	1.1	0.8		5.9
Earnings before the following	9.2	19.8	9.1	9.4		47.5
Equity in net earnings of associated companies	1.8	2.3	1.6	2.0		7.7
Gains on translation of accounts of foreign subsidiaries	4.6	0.1	—	2.3		7.0
Net earnings	<u>\$ 15.6</u>	<u>\$ 22.2</u>	<u>\$ 10.7</u>	<u>\$ 13.7</u>		<u>\$ 62.2</u>
Earnings per common share	<u>\$ 0.86</u>	<u>\$ 1.25</u>	<u>\$ 0.57</u>	<u>\$ 0.75</u>		<u>\$ 3.43</u>

Operations outside Canada continue to make a significant contribution to earnings. In 1977 this amounted to \$26.9 million and in 1976 \$32.3 million.

Associated Companies

The investment in associated companies is carried on the balance sheet under the caption Investments. These investments are carried at cost and adjusted for the Company's share of dividends, earnings and losses. The Company's share of earnings of associated companies amounted to \$7.7 million, principally from Fording Coal Limited \$4.4 million and from The Canada Metal Company Limited \$1.6 million.

The assets and liabilities of associated companies are not included in the consolidated accounts. Set out below is a summary of the results of operations and the financial position for associated companies as at December 31. The accounts of Exploracion Minera Internacional Espana S.A. (Exminesa), the Company's mining operation in Spain (47.5% owned), have not been included in the table. During 1976 and 1977 the property was under construction and development, and at December 31, 1977, Exminesa had not reached commercial levels of production.

	(thousands)
Results of operation for the year:	
Revenues	\$270,055
Costs and expenses	<u>236,955</u>
Earnings before the following	33,100
Income taxes	14,204
Net earnings	<u>\$ 18,896</u>
Cominco's share of net earnings	<u>\$ 7,724</u>
Dividends received by Cominco	<u>\$ 3,549</u>
Financial position as at December 31:	
Working capital	\$ (4,149)
Fixed assets	111,849
Other assets	3,721
	<u>111,421</u>
Less: Income taxes not currently payable	<u>32,507</u>
Long-term debt	933
Other non-current liabilities	<u>4,877</u>
Net assets	<u>\$ 73,104</u>
Cominco's share of net assets	<u>\$ 31,296</u>

Investments

During the year the Company completed a tender offer to purchase shares of Bethlehem Copper Corporation, a company which holds mineral deposits and production facilities adjacent to Valley Copper Mines Limited (N.P.L.). As a result of the tender offer, 1,700,020 shares were purchased which, together with previous shareholdings, increased the Company's holdings in Bethlehem to 2,477,370 shares, or 39.2% of the outstanding common shares. The investment in Bethlehem Copper Corporation amounts to \$41.3 million.

Capital Expenditures

Expenditures on Land, Buildings and Equipment of \$59.8 million and on Mineral Properties and Development of \$21.0 million aggregated \$80.8 million.

Expenditures were made to improve and expand the following operations:

	Land, Buildings and Equipment	Mineral Properties and Development
	(thousands)	
Canada		
Integrated metals	\$14,031	\$ —
Pine Point Mines Limited	7,364	—
Fertilizers and chemicals	15,049	—
Potash	1,897	—
Other operations	12,527	6,063
Other Countries		
Greenland	2,609	2,088
United States of America	4,313	5,845
Australia	1,876	5,074
Others	174	1,939
	<u>\$59,840</u>	<u>\$21,009</u>

Mineral Properties and Development

The Company conducted exploration programs in many areas of the world. Funds totalling \$21.0 million were spent to extend ore bodies and to investigate and identify new properties. In addition, \$10.3 million was spent on general mineral exploration and charged against earnings.

Because of the uncertainty of the final outcome of exploration activities, expenditures to investigate and evaluate exploration properties and the cost of the investment in certain mineral companies are amortized against earnings by charges for depletion.

A summary of the amounts invested is set out below:

	Cost	Accumulated Depletion	Carrying Value
	(thousands)		
Producing properties	\$ 83,858	\$49,385	\$ 34,473
Properties awaiting development	32,347	—	32,347
Properties under exploration and evaluation	70,071	31,052	39,019
	<u>\$186,276</u>	<u>\$80,437</u>	<u>\$105,839</u>

Amounts charged to earnings:

Depletion of producing properties	\$ 6,770
Amortization of exploration properties	9,608
	<u>\$ 16,378</u>

Financing

No major financing was undertaken during 1977. The Company has substantial credit lines with its principal bankers, and in addition a borrowing facility has been established with Canadian Pacific Securities Ltd., an affiliated company. At December 31 the unused portion of these lines amounted to \$168.9 million. Early in 1978, the Company issued \$50 million of Floating Rate Preferred Shares Series C with a par value of \$25 per share. These shares have been purchased by a number of Canadian institutions.

The dividend rate on the shares will vary with the prime lending rate in Canada at the rate of one-half of the prime rate plus 1¼%. The term of the issue is 10 years and the Company has the right to retract the shares at any time after the third year. The proceeds of this issue were used to augment working capital which had decreased during 1977.

Working Capital

Consolidated working capital decreased by \$44.0 million to \$158.2 million. A summary of consolidated funds available to the Company and their use is set out below:

	(thousands)
Sources —	
Funds from operations	\$135,574
Proceeds from new financing:	
Loans	9,672
Equity	135
Other sources	1,412
	<u>146,793</u>
Uses —	
Investments	37,840
Capital expenditures	80,849
Dividends	47,219
Other uses	24,879
	<u>190,787</u>
Change in working capital	<u>\$(43,994)</u>
The changes in the components of working capital are summarized below:	
Increase (decrease) in current assets:	
Cash and short-term investments	\$(23,097)
Accounts receivable	2,546
Inventories	29,382
Prepaid expenses	(1,292)
	<u>7,539</u>
Increase (decrease) in current liabilities:	
Bank loans	15,209
Notes payable to affiliated company	23,000
Accounts payable and accrued liabilities	3,145
Income and resource taxes	10,905
Long-term debt due within one year	(726)
	<u>51,533</u>
Change in working capital	<u>\$(43,994)</u>

Dividends

Dividends of \$43.1 million were paid to shareholders of Cominco Ltd., \$2.30 per share on Common Shares, and \$2.00 per share on Series A Preferred Shares.

Shareholders

There were 27,299 common shareholders at December 31, 1977, compared with 28,147 at the end of 1976. Residents of Canada held 97.2% of the shares outstanding.

The 2,000,000 — \$2.00 Tax Deferred Exchangeable Preferred Shares Series A are held by 2,530 registrants representing 99.9% Canadian ownership.

Summary of Significant Accounting Policies

The accounts of Cominco Ltd., (the Company) are prepared using generally accepted accounting principles in Canada and on a basis consistent with the previous year. The principal accounting policies followed by the Company and its subsidiaries are summarized below to facilitate review of the consolidated statements contained in this report.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and of its subsidiaries. The Company follows the equity method of accounting and includes in its earnings its share of the earnings and losses of associated companies in which it owns 50% or less of the shares and over which it has substantial influence. The difference between the cost of the investment in subsidiary and associated companies and the underlying equity in the net assets at the date of acquisition is allocated to fixed assets on consolidation, and is being amortized over the estimated useful life of the related fixed assets. Inter-company items and transactions between consolidated companies are eliminated.

Foreign Currency Translation

The accounts of foreign subsidiaries are translated into Canadian dollars. Accounts included in the consolidated statement of earnings, except product inventories, depreciation and depletion, are translated at the weighted average rates of exchange prevailing during the year. Product inventories, depreciation and depletion are translated at the rates in effect when the related expenditures are made. Accounts included in the consolidated balance sheet are translated at rates of exchange in effect at the end of the year, except that: a) inventories, investments, fixed assets and accumulated depreciation and depletion are at rates at dates of acquisition; b) deferred income taxes and retained earnings are at rates at date of origin; and c) debts not maturing within one year and share capital are at rates at dates of issue. The resulting translation adjustments are included in the determination of consolidated earnings.

Inventories

Finished goods, raw materials and partially processed materials are valued generally at the lower of cost (determined on the monthly average method) and net realizable value. Stores and operating supplies are valued at average cost less appropriate allowances for obsolescence.

Land, Buildings and Equipment

Land, buildings and equipment are recorded at cost and include the cost of renewals and betterments. When assets are sold or abandoned, the recorded costs and related accumulated depreciation are removed from the accounts and any gains or losses are

included in earnings. Repairs and maintenance are charged against earnings as incurred. Depreciation is calculated on the straight-line method using rates based on the estimated economic lives of the respective assets. In some integrated mining and manufacturing operations, assets are pooled and depreciated at composite rates. Depreciation is not provided on major additions until commencement of commercial production.

Mineral Properties and Development

Expenditures on general mineral exploration are charged against earnings as incurred. Expenditures to investigate identified properties and to develop new mines are capitalized as mineral properties and development. Because of the uncertainty of the final outcome, expenditures on investigation together with the cost of certain investments in mineral companies are amortized against earnings by charges for depletion. Abandoned properties are written-off in the year of abandonment. Depletion on operating mines is provided on a units-of-production or on a time basis related to the mineral reserves position.

Income Taxes

Income tax laws in Canada and certain other countries permit the deduction from taxable income of certain items (principally depreciation and depletion) in amounts and at times which do not coincide with those used for financial reporting purposes. The effect of such timing differences results in taxes being provided for but not currently payable.

Withholding taxes, where applicable, on earnings of foreign operations are provided for in the accounts to the extent of dividends anticipated in the future on earnings accumulated to December 31, 1977.

Research and Product Development

Research and product development costs are charged against earnings as incurred.

Pension Costs

Pension costs for current service are charged to earnings on a current basis. The liability for past service is generally being funded and charged to earnings over periods of up to 15 years (See Note 7).

Earnings per Share

Earnings per common share are calculated by dividing net earnings less preferred dividend requirements by the average number of shares outstanding during the year.

Consolidated Statement of Earnings

Year ended December 31, 1977

	1977	1976
	(thousands)	
REVENUE		
Sales of products and services (net)	\$759,242	\$675,345
Income from investments	6,039	6,801
	<u>765,281</u>	<u>682,146</u>
COSTS AND EXPENSES		
Cost of products and services	459,543	411,464
Distribution	67,001	64,600
Selling	17,925	14,586
General and administrative	26,226	24,426
General mineral exploration	10,323	7,649
Long-term debt interest and expense	24,964	23,558
Depreciation, depletion and amortization	59,174	48,256
	<u>665,156</u>	<u>594,539</u>
EARNINGS BEFORE THE FOLLOWING	<u>100,125</u>	<u>87,607</u>
Taxes on income including resource taxes		
Current	33,899	31,301
Not currently payable	12,803	5,999
	<u>46,702</u>	<u>37,300</u>
	53,423	50,307
Minority interest in net earnings of subsidiary companies	5,906	9,460
	47,517	40,847
Equity in net earnings of associated companies	7,724	5,971
Gain on translation of accounts of foreign subsidiaries	7,007	855
NET EARNINGS	<u>\$ 62,248</u>	<u>\$ 47,673</u>
EARNINGS PER COMMON SHARE	<u>\$3.43</u>	<u>\$2.66</u>

Consolidated Statement of Earnings Reinvested in the Business

Year ended December 31, 1977

	1977	1976
	(thousands)	
AMOUNT AT BEGINNING OF YEAR	\$381,686	\$371,935
Net earnings	62,248	47,673
	<u>443,934</u>	<u>419,608</u>
Deduct		
Costs incurred on issue of preferred shares		1,785
Dividends — Preferred \$2.00 per share (1976 — \$1.08)	4,000	2,160
— Common \$2.30 per share (1976 — \$2.00)	39,090	33,977
	43,090	37,922
AMOUNT AT END OF YEAR	<u>\$400,844</u>	<u>\$381,686</u>

Consolidated Balance Sheet

	1977	1976
	(thousands)	
CURRENT ASSETS		
Cash and short-term investments	\$ 44,026	\$ 67,123
Accounts receivable	105,051	102,505
Inventories (Note 2)	184,364	154,982
Prepaid expenses	<u>7,525</u>	<u>8,817</u>
	<u>340,966</u>	<u>333,427</u>
 INVESTMENTS (Note 3)		
Associated companies	47,986	43,242
Other companies	<u>81,650</u>	<u>45,374</u>
	<u>129,636</u>	<u>88,616</u>
 FIXED ASSETS		
Land, buildings and equipment	747,808	690,965
Less accumulated depreciation	<u>296,789</u>	<u>258,885</u>
	<u>451,019</u>	<u>432,080</u>
 Mineral properties and development	186,276	178,190
Less accumulated depletion	<u>80,437</u>	<u>77,872</u>
	<u>105,839</u>	<u>100,318</u>
	<u>556,858</u>	<u>532,398</u>
 OTHER ASSETS (Note 4)	<u>24,817</u>	18,764
	<u>\$1,052,277</u>	<u>\$973,205</u>

Sheet at December 31, 1977

	1977	1976
	(thousands)	
CURRENT LIABILITIES		
Bank loans	\$ 25,410	\$ 10,201
Notes payable to affiliated company	23,000	—
Accounts payable and accrued liabilities	92,720	89,575
Income and resource taxes	28,249	17,344
Long-term debt due within one year	13,354	14,080
	<u>182,733</u>	<u>131,200</u>
LONG-TERM DEBT (Note 5)	249,483	<u>253,504</u>
INCOME TAXES PROVIDED FOR BUT NOT CURRENTLY PAYABLE	84,158	<u>73,157</u>
MINORITY INTERESTS	<u>51,346</u>	<u>50,080</u>
SHAREHOLDERS' EQUITY		
Capital (Note 6)	83,713	83,578
Earnings reinvested in the business	<u>400,844</u>	<u>381,686</u>
	<u>484,557</u>	<u>465,264</u>
COMMITMENTS AND CONTINGENT LIABILITIES (Note 7)		
	<u>\$1,052,277</u>	<u>\$973,205</u>

APPROVED BY THE BOARD:

J. L. Burnett

Director

Edward J. O'Neil

Director

Consolidated Statement of Changes in Financial Position

Year ended December 31, 1977

	1977	1976
	(thousands)	
SOURCE OF FUNDS		
Funds provided from operations	\$135,574	\$108,636
Proceeds from disposal of investments	213	1,379
Proceeds from disposal of land, buildings and equipment	1,199	1,762
Additional long-term debt	9,672	59,823
Proceeds from issue of share capital — Preferred	—	50,000
— Common (Note 6)	135	294
	<u>\$146,793</u>	<u>\$221,894</u>
APPLICATION OF FUNDS		
Investments	\$ 37,840	\$ 7,803
Land, buildings and equipment	59,840	119,677
Mineral properties and development	21,009	20,094
Repayments on long-term debt	13,693	18,543
Dividends — to shareholders	43,090	36,137
— to minority shareholders of subsidiary companies	4,129	8,674
Other	11,186	7,856
	190,787	218,784
CHANGE IN WORKING CAPITAL	(43,994)	3,110
	<u>\$146,793</u>	<u>\$221,894</u>

THORNE RIDDELL & CO.

CHARTERED ACCOUNTANTS

AUDITORS' REPORT

To the Shareholders of
Cominco Ltd.

We have examined the consolidated balance sheet of Cominco Ltd. as at December 31, 1977 and the consolidated statements of earnings, earnings reinvested in the business and changes in financial position for the year then ended. We also examined the statement of supplementary information as at December 31, 1977 and for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1977 and the results of its operations and the changes in its financial position for the year then ended, and the statement of supplementary information presents fairly the information set forth therein, all in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Vancouver, B.C.
February 6, 1978

Thorne Riddell & Co.
Chartered Accountants

Notes to Consolidated Financial Statements

Year ended December 31, 1977

1. Accounting Policies

The principal accounting policies followed by the Company and its subsidiary companies are summarized under the caption "Summary of Significant Accounting Policies" on Page 16.

2. Inventories

	1977	1976
	(thousands)	
Finished goods	\$111,069	\$ 83,970
Raw materials and partially processed materials	32,934	35,863
Stores and operating supplies	40,361	35,149
	<u>\$184,364</u>	<u>\$154,982</u>

3. Investments

	1977	1976
	(thousands)	
Associated companies:		
Shares at cost	\$29,875	\$29,149
Equity in undistributed earnings	12,511	8,338
	42,386	37,487
Advances	5,600	5,755
	<u>\$47,986</u>	<u>\$43,242</u>
Other companies:		
Shares at cost		
Panarctic Oils Ltd. (8.8% owned; 1976 — 9.2% owned)	\$17,740	\$16,829
Bethlehem Copper Corporation (39.2% owned; 1976 — 6.0% owned)	41,310	4,825
Tara Exploration and Development Company Limited (17.4% owned)	26,903	26,903
Other companies		
Quoted market value (1977 — \$1,695,000) (1976 — \$2,169,000)	2,707	3,389
No quoted market value	2,581	1,877
Advances	389	390
	<u>91,630</u>	<u>54,213</u>
Less accumulated depletion of mineral investments	9,980	8,839
	<u>\$81,650</u>	<u>\$45,374</u>

4. Other Assets

	1977	1976
	(thousands)	
Potash mine rehabilitation costs	\$10,156	\$10,156
Deferred costs, less amounts amortized		
— Debt financing costs	3,181	3,400
— Pre-production costs relating to new fertilizer facilities	8,491	3,535
Other	2,989	1,673
	<u>\$24,817</u>	<u>\$18,764</u>

Following flooding in 1970, the potash mine was rehabilitated and production resumed in March, 1973. Legal counsel have advised that, in their opinion, there are good grounds for establishing liability against the contractors and legal proceedings are in progress to recover the loss.

5. Long-term Debt (excluding amount due within one year)

	1977	1976
	(thousands)	
Companies in Canada:		
Cominco Ltd.		
10% Serial Notes due 1982 to 1996, U.S. \$50,000,000	\$ 49,224	\$ 49,224
8½% Sinking Fund debentures due 1991	61,740	61,740
10% Sinking Fund debentures due 1995	60,000	60,000
Bank loan due 1979 to 1983 with interest related to the Canadian prime bank rate	25,000	25,000
Export Import Bank of the United States 8% loan due 1979 to 1985, U.S. \$9,912,000	9,872	9,166
West Kootenay Power and Light Company, Limited 5½% First Mortgage bonds due 1985	6,725	6,957
Bank loan due 1979 bearing interest at % above prime bank rate	18,300	11,000
Other companies	152	1,684

(Continued)

5. Long-term Debt (excluding amount due within one year) (continued)

	1977	1976
	(thousands)	
Company in United States:		
Cominco American Incorporated		
5½% and 6¾% Notes due 1979 and 1980, U.S. \$2,400,000	2,592	4,212
7% Notes due 1979 to 1984, U.S. \$8,030,000	8,672	10,109
Company in Denmark:		
Greenex A/S		
Bank loans with interest at 1½% above the London inter-bank rate due 1979, U.S. \$7,200,000	7,206	14,412
	<u>\$249,483</u>	<u>\$253,504</u>

Payments due in 1978 \$13,354,000; 1979 \$36,062,000; 1980 \$9,806,000; 1981 \$11,834,000; 1982 \$15,115,000.

If translated into Canadian dollars at year-end rates of exchange, long-term debt would increase by \$7,297,000 in 1977, and \$624,000 in 1976. This is not necessarily indicative of the amounts which will be repaid when the obligations are retired.

6. Capital

a) Authorized:

Preferred —
8,000,000 Preferred Shares with the par value of \$25 each issuable in series.

Common —
30,000,000 shares of no par value.

	1977	1976
	(thousands)	
Issued and fully paid —		
Preferred —		
2,000,000 — \$2.00 Tax Deferred Exchangeable Shares Series A	\$50,000	\$50,000
Common —		
16,997,053 shares (1976 — 16,992,053)	33,713	33,578
	<u>\$83,713</u>	<u>\$83,578</u>

b) Preferred Shares:

The Company has constituted 2,000,000 of the Preferred Shares as "\$2.00 Tax Deferred Exchangeable Preferred Shares Series A", and 2,000,000 of the Preferred Shares as "\$2.4375 Preferred Shares Series B".

Each Series A Preferred Share is entitled to a fixed cumulative cash dividend of \$2.00 per annum payable semi-annually. The Series A Shares are exchangeable into Series B Preferred Shares after June 1, 1988.

c) 5,000 Common shares were issued during the year for \$135,000 (Note 6(d)).

d) In 1974, 100,000 Common shares of the Company were reserved for a stock option plan in favour of certain executives in the full-time employment of the Company or a subsidiary. To December 31, 1977, 93,875 shares were optioned (exercisable within five years of date of issue), leaving 6,125 shares available. Outstanding share options granted but not yet exercised are:

Granted	Option Price	Outstanding Dec. 31, 1976	Exercised in 1977	Outstanding Dec. 31, 1977
1974	\$25.42	7,800	1,000	6,800
1975	\$27.45	17,900	4,000	13,900
1976	\$34.99	22,900	—	22,900
1977	\$32.63	—	—	23,175
		<u>48,600</u>	<u>5,000</u>	<u>66,775</u>

7. Commitments and Contingent Liabilities

a) The Company and its subsidiaries have pension plans covering substantially all employees. At December 31, 1977, actuarial estimates for unfunded past service benefits amount to \$65,000,000. The latest independent actuarial evaluation of most of the pension plans was December 31, 1976. Total pension expense for the year was \$13,427,000 (1976 — \$13,566,000).

b) At December 31, 1977, guarantees and commitments were as follows: Guarantees \$37,000,000 of which \$26,000,000 was for bank loans of associated companies.

Unexpended amounts remaining on approved major capital projects \$77,000,000.

8. Directors' and Officers' Remuneration

In 1977, total remuneration of \$96,000 was paid to fourteen (all) directors and \$1,388,000 to nineteen (all) officers of the Company, including relatively insignificant amounts paid to them by subsidiaries. There were four officers who were also directors.

9. Anti-Inflation Programme

In 1975, the Government of Canada passed the Anti-Inflation Act. Under this legislation the Company and its Canadian subsidiaries are subject to controls on revenues, profits, employees' compensation and shareholders' dividends.

10. Reclassification

Certain of the 1976 comparative figures have been reclassified to conform with the 1977 presentation.

Notes to Statement of Supplementary Information

Year ended December 31, 1977

1. Consolidated Earnings

The accounting principles followed to determine consolidated earnings are explained in the Summary of Significant Accounting Policies. The Company's share of net earnings (losses) shown under each of the captions represents earnings as shown in the accounts of each operation adjusted by eliminating inter-divisional profits relating to inventories held at December 31 and for the interest of minority shareholders.

2. Unallocated Amounts

Certain investment income and corporate expenditures relating to the overall direction and management of the Company's activities are not allocated to operations. Long-term debt interest and expense relates primarily to the operating divisions of the Company. Depreciation and depletion includes \$6.1 million (1976 — \$5.7 million) being the charge for depleting mineral properties as explained in the Summary of Significant Accounting Policies.

3. Working Capital

The management of cash and the payment of accounts for the operating divisions of the Company are centralized at the head office. The divisions have been assigned the current assets represented by receivables, inventories and prepaid expenses for their respective operations. The balance of working capital elements are shown under the heading "Unallocated Amounts".

4. Undeveloped Properties and Construction in Progress

	1977	1976
	(thousands)	
Canada:		
Fertilizers and Chemicals:		
Carseland Ammonia and Urea Plant (construction completed in 1977)	\$ —	\$139,350
Other Operations:		
Pine Point Mines Limited — Dragline (under construction)	5,510	—
Con Mine Shaft (construction completed in 1977)	—	15,778
Properties Awaiting Development:		
Arvik Mines Ltd.	8,917	8,676
Valley Copper Mines Limited (N.P.L.)	21,008	20,829
Other Exploration Properties	15,894	18,115
Other Countries:		
Properties Awaiting Development	2,422	2,046
Other Exploration Properties	23,125	17,485
	<u>\$76,876</u>	<u>\$222,279</u>

5. Vestgron Mines Limited

Vestgron Mines Limited is the holding company for Greenex A/S. Under the terms of a Concession Agreement with the Danish Ministry for Greenland, dated January 22, 1971, Greenex A/S was granted exemption from payment of taxes until that company realized earnings to an amount approximately equivalent to total invested capital. During 1977, Greenex earned its investment and became subject to taxes.

6. Reclassification

Certain of the 1976 comparative figures have been reclassified to conform with the 1977 presentation.

Statement of Supplementary Information

Year ended December 31, 1977

	1977 (thousands)					Other Countries	
	Canada					Vestron Mines Limited (Note 5)	Other Operations
	Integrated Metals	Pine Point Mines Limited	Fertilizers & Chemicals	Potash	Other Operations		
REVENUE							
Sales of products and services (net)	\$286,573	\$74,816	\$ 98,449	\$25,828	\$122,324	\$42,847	\$167,8
Income from investments	—	830	—	—	204	367	3,3
	<u>286,573</u>	<u>75,646</u>	<u>98,449</u>	<u>25,828</u>	<u>122,528</u>	<u>43,214</u>	<u>171,2</u>
COSTS AND EXPENSES							
Cost of products and services	204,318	32,517	81,731	16,595	70,176	20,328	80,2
Distribution	21,555	19,233	9,629	351	825	4,817	22,3
Selling	2,601	69	2,656	488	387	1,189	10,5
General and administrative	6,397	1,798	1,968	523	5,013	2,724	2,5
General mineral exploration	—	—	—	—	199	1,259	3,7
Long-term debt interest and expense	—	—	—	—	1,748	1,918	1,0
Depreciation, depletion and amortization	5,039	7,074	10,287	4,519	3,372	4,585	16,2
	<u>239,910</u>	<u>60,691</u>	<u>106,271</u>	<u>22,476</u>	<u>81,720</u>	<u>36,820</u>	<u>136,7</u>
Earnings (losses) before the following	46,663	14,955	(7,822)	3,352	40,808	6,394	34,4
Income and resource taxes	16,812	5,564	(3,520)	6,740	19,156	350	17,4
	<u>29,851</u>	<u>9,391</u>	<u>(4,302)</u>	<u>(3,388)</u>	<u>21,652</u>	<u>6,044</u>	<u>17,0</u>
Equity in net earnings of associated companies	—	—	—	—	6,548	—	1,1
Gain on translation of accounts of foreign subsidiaries	—	—	—	—	—	(323)	7,3
Net earnings (losses) before minority interests	<u>\$ 29,851</u>	<u>\$ 9,391</u>	<u>\$ (4,302)</u>	<u>\$ (3,388)</u>	<u>\$ 28,200</u>	<u>\$ 5,721</u>	<u>\$ 25,5</u>
Cominco's share of net earnings (losses) (Note 1)	<u>\$ 29,851</u>	<u>\$ 6,178</u>	<u>\$ (4,302)</u>	<u>\$ (3,388)</u>	<u>\$ 28,650</u>	<u>\$ 3,576</u>	<u>\$ 23,2</u>
WORKING CAPITAL (Note 3)							
Current assets	\$110,343	\$22,799	\$ 41,425	\$ 7,201	\$ 26,735	\$26,468	\$128,9
Current liabilities	—	8,278	—	—	26,554	17,501	53,2
	<u>\$110,343</u>	<u>\$14,521</u>	<u>\$ 41,425</u>	<u>\$ 7,201</u>	<u>\$ 181</u>	<u>\$ 8,967</u>	<u>\$ 75,6</u>
FIXED ASSETS							
Land, buildings and equipment	\$ 45,112	\$17,948	\$162,623	\$54,885	\$ 81,781	\$35,495	\$ 47,6
Mineral producing properties	712	9,653	—	879	293	12,323	10,6
Undeveloped properties and construction in progress (Note 4)	—	5,510	—	—	45,819	—	25,5
TOTAL FIXED ASSETS	<u>\$ 45,824</u>	<u>\$33,111</u>	<u>\$162,623</u>	<u>\$55,764</u>	<u>\$127,893</u>	<u>\$47,818</u>	<u>\$ 83,8</u>
PRINCIPAL PRODUCTS							
	Lead and Zinc	Lead and Zinc Conc.	Sulphates Phosphates Nitrates Ammonia	Potash	Power Wharves Steel, Gold Coal Mfg.	Lead and Zinc Conc.	Lead, Zinc Other Me Phosphat Nitrates Ammonia Steel
PRINCIPAL LOCATION OF ASSETS							
	B.C.	N.W.T.	B.C. Alta.	Sask.	B.C. Alta. Ont. N.W.T.	Greenland	United S Europe Australia Asia

1976
(thousands)

Consolidated		Canada					Other Countries		Consolidated	
Unallocated Amounts (Note 2)	1977	Integrated Metals	Pine Point Mines Limited	Fertilizers & Chemicals	Potash	Other Operations	Vestgron Mines Limited (Note 5)	Other Operations	Unallocated Amounts (Note 2)	1976
\$ —	\$759,242	\$273,358	\$85,972	\$ 67,225	\$22,291	\$ 91,686	\$49,234	\$144,438	\$ —	\$675,345
1,668	6,039	—	1,331	—	—	190	348	3,524	2,433	6,801
1,668	765,281	273,358	87,303	67,225	22,291	91,876	49,582	147,962	2,433	682,146
—	459,543	203,072	35,811	53,109	13,753	69,418	19,318	63,133	—	411,464
—	67,001	20,925	27,267	8,303	143	549	4,665	16,740	—	64,600
—	17,925	2,090	226	1,978	327	625	1,275	8,065	—	14,586
5,277	26,226	5,607	1,799	1,908	919	5,164	1,693	2,517	4,819	24,426
5,071	10,323	—	32	—	—	170	496	2,539	4,412	7,649
20,701	24,964	—	—	—	—	1,496	3,163	1,125	18,578	23,558
7,713	59,174	4,442	6,657	3,657	4,397	4,984	4,242	12,938	7,007	48,256
38,762	665,156	236,136	71,792	68,955	19,539	82,406	34,852	107,057	34,816	594,539
(37,094)	100,125	37,222	15,511	(1,730)	2,752	9,470	14,730	40,905	(32,383)	87,607
(15,484)	46,702	12,109	6,200	(721)	7,203	5,409	—	18,761	(12,234)	37,300
(21,610)	53,423	25,113	9,311	(1,009)	(4,451)	4,061	14,730	22,144	(20,149)	50,307
—	7,724	—	—	—	—	5,224	—	747	—	5,971
—	7,007	—	—	—	—	—	842	13	—	855
(21,610)	\$ 68,154	\$ 25,113	\$ 9,311	\$(1,009)	\$(4,451)	\$ 9,285	\$15,572	\$ 22,904	\$(20,149)	\$ 57,133
(21,610)	\$ 62,248	\$ 25,113	\$ 6,584	\$(1,009)	\$(4,451)	\$ 9,305	\$ 9,705	\$ 22,575	\$(20,149)	\$ 47,673
19,681	\$340,966	\$ 90,603	\$25,421	\$ 32,841	\$ 7,021	\$ 24,798	\$29,581	\$144,476	\$ 11,831	\$333,427
125,401	182,733	—	8,471	—	—	25,819	14,860	33,401	90,640	131,200
105,720)	\$158,233	\$ 90,603	\$16,950	\$ 32,841	\$ 7,021	\$(1,021)	\$14,721	\$111,075	\$(78,809)	\$202,227
—	\$445,509	\$ 36,158	\$20,681	\$ 16,316	\$57,444	\$ 59,565	\$36,806	\$ 49,964	\$ —	\$276,934
—	34,473	908	12,419	—	975	317	11,132	7,434	—	33,185
—	76,876	—	—	139,350	—	63,398	—	19,531	—	222,279
—	\$556,858	\$ 37,066	\$33,100	\$155,666	\$58,419	\$123,280	\$47,938	\$ 76,929	\$ —	\$532,398
		Lead and Zinc	Lead and Zinc Conc.	Sulphates Phosphates Nitrates Ammonia	Potash	Power Wharves Steel, Gold Coal Mfg.	Lead and Zinc Conc.	Lead, Zinc Other Metals Phosphates Nitrates Ammonia Steel		
		B.C.	N.W.T.	B.C. Alta.	Sask.	B.C. Alta. Ont. N.W.T.	Greenland	United States Europe Australia Asia		

Principal Offices

COMINCO LTD.

Head Office — 200 Granville Street, Vancouver, British Columbia V6C 2R2

Operations Offices — Vancouver, Trail, British Columbia

— Calgary, Alberta — Yellowknife, Northwest Territories

Research Centres — Trail, British Columbia — Sheridan Park, Ontario

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CANADA Cominco Ltd. — Vancouver, British Columbia — Toronto, Ontario

— Calgary, Alberta — Winnipeg, Manitoba

U.S.A. Cominco American Incorporated — Spokane, Washington — Chicago, Illinois

— Fargo, North Dakota — Minneapolis, Minnesota

— Lincoln, Nebraska

EUROPE Cominco (U.K.) Limited — London, Manchester, Glasgow, United Kingdom

Cominco GmbH — Dusseldorf, West Germany

Cominco France S.A. — Paris, France

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Cominco France S.A. — Paris, France

Condor Srl. — Rome, Italy

AUSTRALIA Abminco N.L., Melbourne

MEXICO Compañía Minera Constelación S.A. de C.V. — Mexico City

BRAZIL Mineração Cominco Ltda. — Rio de Janeiro

OPERATING MINES

Aberfoyle — Tasmania

Ardlethan — New South Wales

Black Angel — Greenland

Cleveland — Tasmania

Con — Northwest Territories

Fording Coal — British Columbia

H.B. — British Columbia

Magmont — Missouri

Pine Point — Northwest Territories

Vade (Potash) — Saskatchewan

Rubiales — Spain

Storeys Creek — Tasmania

Sullivan — British Columbia

Warm Springs (Brock) — Montana

METAL PRODUCTION

Cominco Ltd. — British Columbia

Cominco Binani Zinc Limited — India

Hawaiian Western Steel Limited — Hawaii

Mazak Limited — England

Mitsubishi Cominco Smelting

Company Limited — Japan

Western Canada Steel Limited —

British Columbia — Alberta

METAL FABRICATION

The Canada Metal Company Limited — Quebec —

Ontario — Manitoba — Alberta — British Columbia

Cominco American Incorporated — Washington

National Hardware Specialties Limited — Ontario

CHEMICAL AND FERTILIZER PRODUCTION

Cominco Ltd. — British Columbia — Alberta

Cominco American Incorporated — Nebraska — Texas

Cominco Binani Zinc Limited — India



Principal Subsidiaries and Associated Companies

	<i>Cominco Ownership</i>		<i>Head Office</i>
Arvik Mines Ltd.	75%	R. P. Douglas <i>President and Chief Executive Officer</i>	Yellowknife N.W.T.
Bethlehem Copper Corporation	39%	B. J. Reynolds <i>President and Chief Executive Officer</i>	Vancouver British Columbia
The Canada Metal Company Limited	50%	D. F. Hutton <i>President and Chief Executive Officer</i>	Toronto Ontario
Cominco American Incorporated	100%	J. C. MacLean <i>President and Chief Executive Officer</i>	Spokane Washington, U.S.A.
Cominco Australian Pty. Ltd.	100%	G. N. Moore <i>Chairman</i>	Sydney Australia
Aberfoyle Limited	55%	G. N. Moore <i>Chairman</i>	Melbourne Australia
Abminco N.L.	38%	N. A. Gilberthorpe <i>Managing Director</i>	Melbourne Australia
Cominco Binani Zinc Limited	40%	G. Binani <i>Chairman</i>	Calcutta India
Cominco Europe N.V.	100%	J. C. Beck A. J. van der Marel <i>Managing Directors</i>	Amsterdam Netherlands
Cominco S.A.	100%	S. J. Pedley <i>Managing Director</i>	Brussels Belgium
Cominco France S.A.	100%	W. Bittner <i>Director General — Commercial</i> B. Nicolet <i>Director General — Exploration</i>	Paris France
Exploración Minera Internacional España S.A. (Exminesa)	47%	R. S. Jiménez <i>Chairman</i>	Madrid Spain
Cominco GmbH	100%	K. P. Neufeldt <i>Managing Director</i>	Dusseldorf West Germany
Cominco (U.K.) Limited	100%	D. M. Silver <i>Managing Director</i>	London England
Mazak Limited	50%	R. P. Wilson <i>Chairman and Managing Director</i>	Bristol England
Fording Coal Limited	40%	J. H. Morrish <i>President and Chief Executive Officer</i>	Calgary Alberta
Mitsubishi Cominco Smelting Company Limited	45%	T. Nagano <i>President</i>	Tokyo Japan
National Hardware Specialties Limited	99%	W. J. McDonald <i>President and Chief Executive Officer</i>	Dresden Ontario
Pacific Coast Terminals Co. Ltd.	78%	W. W. Brown <i>President and Chief Executive Officer</i>	New Westminster British Columbia
Panarctic Oils Ltd.	9%	C. R. Hetherington <i>President and Chief Executive Officer</i>	Calgary Alberta
Pine Point Mines Limited	69%	R. P. Douglas <i>President and Chief Executive Officer</i>	Pine Point N.W.T.
Rycon Mines Limited	76%	G. D. Tikkanen <i>President</i>	Yellowknife N.W.T.
Tara Exploration and Development Company Limited	17%	M. McCarthy <i>President</i>	Toronto Ontario
Valley Copper Mines Limited (N.P.L.)	81%	S. M. Rothman <i>President</i>	Trail British Columbia
Vestgron Mines Limited	63%	O. E. Owens <i>President</i>	Yellowknife N.W.T.
Greenex A/S	63%	E. Dragsted <i>Chairman</i>	Umanak Greenland
Western Canada Steel Limited	100%	M. C. D. Hobbs <i>Chairman and Chief Executive Officer</i>	Vancouver British Columbia
Hawaiian Western Steel Limited	51%	C. C. Smith <i>General Manager</i>	Ewa Hawaii
West Kootenay Power and Light Company, Limited	Common 100% Preferred 30%	P. Hansen <i>President and Chief Executive Officer</i>	Trail British Columbia

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